MODERATOR

Thank you for joining us today for GitLab's third quarter of fiscal year 2024 financial results presentation. GitLab's co-founder and CEO, Sid Sijbrandij, and GitLab's Chief Financial Officer, Brian Robins, will provide commentary on the quarter and fiscal year.

Please note we will be opening up the call for panelist questions. To ask a question please use the chat feature and post your question directly to "IR Questions" using the drop-down menu.

Before we begin, I'll cover the Safe Harbor statement:

During this conference call, we may make forward-looking statements within the meaning of the federal securities laws. These statements involve assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated. For a complete discussion of risk associated with these forward-looking statements in our business, please refer to our earnings release distributed today in our SEC filings, including our most recent quarterly report on Form 10-Q and our most recent annual report on Form 10-K.

Our forward-looking statements are based upon information currently available to us. We caution you to not place undue reliance on forward-looking statements, and we undertake no duty or obligation to update or revise any forward-looking statement, or to report any future events, or circumstances or to reflect the occurrence of unanticipated events.

We may also discuss financial performance measures that differ from comparable measures contained in our financial statements prepared in accordance with U.S. GAAP. These non-GAAP measures are not intended to be a substitute for our GAAP results.

A reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is included in our earnings press release which, along with these reconciliations and additional supplemental information, are available at ir.gitlab.com. A replay of today's call will also be posted on ir.gitlab.com.

I will now turn the call over to GitLab's co-founder and Chief Executive Officer, Sid Sijbrandij.

Sid Sijbrandij

Thank you for joining us today. We delivered a strong quarter. Revenue grew 32% year over year, driven by the continued adoption of our DevSecOps Platform.

GitLab is the only DevSecOps platform that brings together security, compliance & governance, AI, and enterprise agile planning. Enterprises face complexity from all directions in the form of rapidly increasing user expectations, more advanced cyber attacks, and more strict industry regulations.

We believe they need GitLab to help them navigate this complexity and realize business value.

Our platform improves engineering productivity and reduces software spend. That's why our customers report seeing 7x faster cycle times with GitLab.

Today, I'll discuss how we are driving results in three key areas:
- First, we added new security & governance capabilities in our platform.
- Second, we integrated AI throughout the software development lifecycle.
- And third, we added an Enterprise Agile Planning offering to make our platform available to non-technical users.

Let's start with our security & governance functionality. These are at the heart of our platform and set us apart from the competition. Organizations like CARFAX and Lockheed Martin trust GitLab to help them build security & compliance into their workflows.

With GitLab, organizations and their engineering teams report that they catch vulnerabilities earlier in the development process. And compliance leaders can set the right controls and governance frameworks.

In contrast, security point solutions can cause friction for developers. With point solutions, developers either have to wait on security teams to identify vulnerabilities. Or, if they have access to a security scanner to assess their code, they need to manually copy and paste the scanner results back into their development tool.

The result is: code that isn't scanned at the time it's written. This increases the time required to detect and resolve vulnerabilities.

Our platform enables organizations to integrate security directly into the developer workflow. A recent product innovation our customers are excited about is our new security findings workflow extension. This extension enables developers to see and address security findings directly in their IDE while they work, without breaking their flow.

Our customers see the value of bringing security and compliance into the same platform where developers work.

An example is DoubleVerify, a leading software platform for digital media measurement, data, and analytics. DoubleVerify was previously using GitLab Premium alongside several point solutions for their application security needs. They recently upgraded to GitLab Ultimate to bring security findings closer to their developers. Now, their developers can identify, learn about, and fix vulnerabilities in the same place where they work, without switching applications.

Another key differentiator for us in the security & compliance space is GitLab Dedicated, our single-tenant SaaS solution that provides customers with data isolation and residency. With GitLab Dedicated, customers in highly regulated industries get the benefit of a comprehensive DevSecOps platform while meeting complex and stringent compliance and regulatory requirements.

A large telecommunications company in Asia-Pacific recently upgraded to GitLab Dedicated to enhance their privacy and compliance capabilities across their software development lifecycle.

In Q3 we also launched a new self-serve portal where customers can configure and maintain their GitLab Dedicated instances. This product innovation will create a more effective onboarding experience for new customers.

Now, I'd like to discuss our second topic, which is our unique approach to AI.

We already have 14 AI features available to our customers. That's more than any other DevSecOps platform. And we continue to innovate.

GitLab Duo is our suite of AI-powered DevSecOps workflows that enable customers to boost speed and efficiency without sacrificing privacy, security, and compliance. We have three principles in our AI strategy.

First, we are the only platform that integrates AI throughout the entire software development lifecycle. As developers become more effective, we enable security and operations team members to keep pace. Also, developers only spend 25% of their time writing code. AI within DevSecOps should focus on more than just code creation.

Second, we are privacy and transparency first in our approach to AI. Our customers are eager to use AI, but they want to do so responsibly. To support them with this, we do not use their code to train the AI models used by other customers. Our privacy first approach is why more than 50% of the Fortune 100 trust GitLab to secure their intellectual property.

Third, our AI is powered by a diverse set of models from technology partners as well as our own AI models. This allows us to select the best AI model for each use case.

In Q3, we released the beta of GitLab Duo Vulnerability Summary. This is a cool feature that provides AI-generated explanations of security vulnerabilities and suggestions for how to fix them.

Another example of our progress is GitLab Duo Code Suggestions, our AI-powered code creation feature. It will be generally available in our December product release. We have been hearing from our customers that they are seeing efficiency improvements upwards of 50% with Code Suggestions.

And finally, we recently announced the beta release of GitLab Duo Chat. With GitLab Duo Chat, users can quickly understand project status, get help with planning and configuration, receive explanations of suggested code, and generate tests. All without context switching. To start, GitLab Chat is available within the GitLab UI, Web IDE, and VS Code. We plan to add support for more editors in the future.

Our approach to AI is resonating with our customers. For example, Amado Gramajo, Vice President of Infrastructure & DevOps at Nasdaq, recently shared his excitement about how GitLab Duo will help Nasdaq protect their intellectual property and stay in line with regulatory mandates.

And, presenting at this year's Gartner Application Innovation Summit, Bal Kang at NatWest said: "GitLab Duo enables our developers to be more productive, efficient, and successful in creating secure code. We're excited to see the benefits of GitLab's AI features across the entire value chain and even our most seasoned engineers are seeing value."

Our next focus area is Enterprise Agile Planning. Our Enterprise Agile Planning offering brings portfolio and project management capabilities into the same platform where engineers work.

Organizations already see our Enterprise Agile Planning capabilities as a strong alternative to established tools on the market, like Jira. For example, Iron Mountain, a global information management service provider, was struggling to manage the plugins required to integrate Jira with the rest of their development process. By moving from Jira to GitLab Ultimate, Iron Mountain was able to scale their Agile framework to drive more effective collaboration between Enterprise IT teams and key stakeholders.

Atlassian's decision to stop support for its Server offering is making customers reconsider what product they use for Enterprise Agile Planning. We are focused on making it easier for these customers to move to GitLab SaaS and self-managed. We recently launched a new Enterprise Agile Planning SKU. Now, GitLab Ultimate customers can easily bring non-technical users into the platform.

Security & compliance, AI, and Enterprise Agile Planning strengthen our position as the leader in the DevSecOps platform category. The breadth and depth of our platform across the entire software development lifecycle differentiate us from point solutions and our main competitor, GitHub. Let me give a few examples of why enterprises choose GitLab.

First is a leading global financial platform that tried to integrate GitHub with several other DevOps tools. This created complex workflows that required time-consuming maintenance. Now the customer is moving their code repository and CI from GitHub to GitLab. And GitLab was

able to replace other point solutions for automation, continuous delivery, and package management as well. With GitLab, the customer is able to reduce costs and centralize their work on a single platform, with 8x faster deployments and 4x faster feature delivery.

Another example is a business networking organization that initially built its software development workflows around GitHub. They began hitting usage limits when running builds, and quickly realized that GitHub was not efficient enough to support their growth. They switched to GitLab Premium and saw a 7x increase in the number of pipelines run. They also needed a comprehensive security & compliance solution that GitHub was unable to provide. As a result, the company upgraded to GitLab Ultimate this year to help them build a major new product to serve their rapidly growing customer base.

We believe that enterprises need more than a developer platform. They need a full DevSecOps platform that scales and streamlines software development workflows while ensuring robust security & compliance.

This was on full display at our DevSecOps World Tour. We recently rounded out this year's 11-stop World Tour with a final event in Washington, D.C.

Each event included a fireside chat where customers like Carrefour, Deutsche Telekom, Southwest Airlines, and Splunk shared how they rely on GitLab to improve security, drive efficiency, and accelerate time to market.

We created the DevOps Platform category, and we continue to set the standard. We remain focused on helping enterprises build fast and stay secure with tools that teams love to use. We are well-positioned to win in the estimated $40 billion market opportunity in front of us.

I'd like to thank all our customers, as well as our partners, team members, community members, and investors, for their continued support.

I will now turn it over to Brian Robins, GitLab's Chief Financial Officer.

Brian Robins

Thank you Sid, and thank you again for everyone joining us today. Overall we saw strong performance in the third quarter. Our revenue grew 32% year-over-year and we delivered over 2,200 basis points of non-GAAP operating margin expansion. I am pleased to share our first quarter of non-GAAP operating profit. This is a major milestone for us in efficiently scaling the business to address our large market opportunity. At the same time, we contine to make targeted investments in key product areas. These include security & governance, AI, and enterprise agile planning.

Looking back at the quarter, I want to share some of the areas we have been closely monitoring. These include sales cycles, win rates, contraction, and Ultimate.

In comparing Q3 with Q2 of FY24, we have seen overall sales cycles lengthen. During Q3 buying behavior in our enterprise segment stabilized. However in the mid-market and SMB, we see customers continue to be cautious in the uncertain macro environment. We have adapted our GTM approach in this environment to deliver predictable and strong results. In Q3, our win rates have improved, signaling that the value proposition of our DevSecOps platform is resonating in the market. Contraction during Q3 also improved for the third consecutive quarter and is in-line with levels from Q3 last year. And finally, we continued to see strong adoption of Ultimate, our top tier. Ultimate represented over 50% of Q3 ARR bookings, driven by customer wins for security & compliance use cases.

Now, turning to the numbers. Revenue of $149.7 million this quarter represents an increase of 32% organically from Q3 of the prior year. We ended Q3 with over 8,100 customers with ARR of at least 5,000, compared to over 7,800 customers in the second quarter of FY24. This compares to over 6,400 customers in Q3 of the prior year. This represents a year-over-year growth rate of approximately 26%. Currently, customers with >5,000 in ARR represent approximately 95% of our total ARR.

We also measure the performance and growth of our larger customers, who we define as those spending more than $100,000 in ARR with us. At the end of the third quarter of FY24, we had 874 customers with ARR of at least $100,000, compared to 810 customers in Q2 of FY24. This compares to 638 customers in the third quarter of FY23. This represents a year-over-year growth rate of approximately 37%.

As many of you know, we do not believe calculated billings to be a good indicator of our business, given that prior period comparisons can be impacted by a number of factors, most notably our history of large prepaid multi-year deals. This quarter total RPO grew 40% year over year to $548.1 million. cRPO grew 34% to $371.8 million for the same time frame.

We ended our third quarter with a Dollar-Based Net Retention Rate of 128%. As a reminder, this is a trailing 12 month metric that compares the expansion activity of customers over the last 12 months, with that same cohort of customers during the prior 12 month period. This quarter we have updated our DBNRR calculation methodology to reflect operational changes to our customer account hierarchies. The trend of declining but stabilizing rate has been consistent based on both the previous and the new DBNRR calculations.

Non-GAAP gross margins were 91% for the quarter, which is consistent with the preceding quarter. This is slightly improved from the third quarter of FY23. SaaS represents over 25% of total revenue and grew 53% YoY. We have been able to maintain best-in-class Non-GAAP gross margins despite the higher cost of SaaS delivery. This is another example of how we continue to drive efficiencies in the business.

We saw improved operating leverage this quarter, largely driven by realizing greater efficiencies as we continue to scale the business. Q3 non-GAAP operating profit was $4.7 million, or 3% of revenue, compared to a loss of $21.6 million, or negative (19%) of revenue in the third quarter of last year. This includes an operating loss of $2.6 million for JiHu, our JV and majority owned subsidiary. On a standalone GitLab basis, Q3 non-GAAP operating income was $7.3 million, or 5% of revenue.

Operating cash use was $6.0 million in the third quarter of FY24, compared to a $1.2 million use of cash in operating activities in the same quarter of last year.

Since fiscal 2023 we have been proactively negotiating a bilateral Advance Pricing Agreement, or APA, relating to our transfer pricing arrangements between the Netherlands and the U.S tax authorities. The proposed agreements between the Company, the IRS and the Dutch Tax Authority are not yet final. However, given the stage of discussions during the third quarter, we recorded our estimate of $254M million non-recurring income tax adjustment. This adjustment does not impact our non-GAAP earnings per share.

I believe this change positions GitLab for the future by optimizing our long-term tax position. The APA will result in an exit cash tax payment to the Dutch Tax Authority in the future. The timing is dependent on ongoing work with both parties and we will keep you updated on future earnings calls. Our modeling shows the exit payment should be recouped as tax savings over future periods.

Now let's turn to guidance. We are assuming that the trends in the business we have seen over the last few quarters continue.

For fourth quarter of FY24:
- We expect total revenue of $157 million to $158 million, representing a growth rate of 28% to 29% year-over-year.
- We expect a non-GAAP operating income of $5 million to $6 million.
- And, we expect a non-GAAP net income per share of $0.08 to $0.09, assuming 164 million weighted average diluted shares outstanding.

For the full year FY24:
- We now expect total revenue of $573 million to $574 million, representing a growth rate of approximately 35% year-over-year.
- We expect a non-GAAP operating loss of $10 million to $9 million.
- And, we expect non-GAAP net income per share of $0.12 to $0.13 assuming 162 million weighted average diluted shares outstanding.

On a percentage basis, our new annual FY24 guidance implies non-GAAP operating improvement of approximately 1,900 basis points year-over-year at the midpoint of our guidance. We believe that our continued focus on responsible growth will yield further improvements in our unit economics. I'm pleased to guide to a profitable non-GAAP operating income in 4Q. We remain on track to achieve free cash flow breakeven for FY25 excluding any non-recurring cash tax payments related to the APA result I discussed earlier.

There are a number of drivers we believe will fuel our business in FY25 and beyond. At our core, continuing to deliver customer value with our DevSecOps platform aligns our success with our customers' success. Additionally in April of this year, we raised the price of our Premium tier

for the first time in five years. Thus far, customer behavior has been in-line with our expectations, although as a reminder we anticipate the real financial impact from this change through FY26. Another driver is the launch of Dedicated. GitLab Dedicated allows us to serve companies in highly regulated industries with complex security & compliance requirements. The largest deal we signed in Q3 was an eight-figure TCV expansion with an auto company on Dedicated. The final driver for FY25 and beyond is the monetization of our AI capabilities. Last month we announced the general availability of GitLab Duo Code Suggestions is expected in our December product release.

Separately, I would like to provide an update on JiHu, our China joint venture. Our goal remains to deconsolidate JiHu. However, we cannot predict the likelihood or timing of when this may potentially occur. Thus, for modeling purposes for FY24, we now forecast approximately $22 million of expenses related to JiHu, compared with $19 million in FY23. Excluding the impact of JiHu, we anticipate GitLab will be non-GAAP operating income breakeven in FY24.

In closing, I'm pleased with our business momentum driven by our market-leading platform approach and commitment to capturing our large market opportunity. Chris, our new CRO, has led consistent execution with our sales teams and partners to drive a strong quarter. Looking forward, we continue to prioritize driving revenue growth in a responsible manner.

With that, we will now move to Q&A. To ask a question please use the chat feature and post your question directly to "IR Questions." We are ready for the first question.